

# Testimony Before the House Budget Committee

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# Economic Context of Welfare Reform

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Key factors in explaining the positive outcomes.

- P Welfare reform coincided with the longest-running economic expansion in our nation's history.
- P Average annual unemployment fell from 6.9 percent in 1993 to 4.0 percent in 2000.
- P Hourly wage rates for the lowest-paid workers began to rise after falling for two consecutive decades.
- P EITC expansions to make work pay.
- P Increases in child care expenditures.

# Positive Outcomes of Welfare Reform

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P Single mother are working more.

- ▶ In 1992, about one-third of single mothers with young children were employed; by 1999, more than half were employed.

P Single mothers are earning more.

- ▶ The poorest 40 percent of single mother families increased their earnings by about \$2,300 per family on average between 1995 and 1999 after adjusting for inflation.

P Child poverty has decreased.

- ▶ Under a measure of poverty that includes government benefits and taxes, the child poverty rate fell to 12.9 percent in 1999 — the lowest level since this measure became available in 1979.

P Caseloads have declined by 56 percent in TANF and 35 percent in Food Stamps since 1994.

# Troubling Results of Welfare Reform

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- P After adjusting for inflation, the average disposable incomes of the poorest fifth of single mothers fell 4 percent between 1995 and 1999, despite increased earnings.
- P According to the Current Population Survey, there are 700,000 families that have significantly less income in 1999 than their counterparts in 1995.
- P The “poverty gap” has not budged significantly in recent years despite the decrease in the poverty rate.
  - ▶ The poverty gap measures the total number of dollars that would be required to bring all people with incomes below the poverty line up to the poverty line.

**Poverty Gap for Families with Children**  
(Billions of 1999 inflation-adjusted dollars)

	<b>Change in Poverty Gap</b>				
	<b>1993</b>	<b>1995</b>	<b>1999</b>	1993-1995	1995-1999
Before taxes and transfers	85.0	73.0	55.9	-12.0	-17.1
After taxes and transfers	32.0	24.8	22.5	-7.2	-2.3

# Troubling Results, continued

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P Trends in disposable income.

- ▶ While the poorest 40 percent of single mother families increased their earnings by about \$2,300 per family on average between 1995 and 1999, their disposable income increased only \$292. (All figures adjusted for inflation.)

P Many working families are inappropriately losing ancillary benefits for which they remain eligible, such as food stamps.

P Single mothers with incomes between about \$13,000 and \$20,000 face very high marginal tax rates.

P The labor force participation rates of young African American men has fallen 6 percentage points between 1993 and 1999.

P MDRC results show that positive outcomes for children require both work and income gains.

# Building on Welfare Reform

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## Missed Opportunities to Help the Working Poor

- P No expansions of the Earned Income Tax Credit, such as:
  - ▶ A “third tier” in the EITC for families with three or more children.
  - ▶ Reduction in the marriage penalty in the EITC.
  - ▶ Expansion of the EITC in targeted income ranges to reduce marginal tax rates.
- P Working poor families do not benefit from the Bush tax plan.
  - ▶ Some 33 percent of all children will not benefit from the Bush tax plan; 55 percent of Black children and 56 percent of Hispanic children will not benefit.
  - ▶ Could make the child tax credit partially refundable, by refunding a small percentage of earnings (between 5 percent and 15 percent) up to a maximum credit of \$1,000 per child.
- P No funds to improve child support distribution rules like H.R. 4678, which passed the House 405-18.
  - ▶ Many low-income non-custodial parents face an effective tax rate of 100 percent when they pay child support.

# Building on Welfare Reform, continued

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## Missed Opportunities to Help the Working Poor

- P No expansion of Medicaid or SCHIP for working parents and the many children who remain uninsured.
  - ▶ In the median state, a parent in a family of three loses Medicaid eligibility when her income surpasses 67 percent of the poverty line.
- P No improvement in the safety net for legal immigrants.
  - ▶ Should restore food stamp benefits for the working poor and states should have the option to restore Medicaid coverage.
- P No funds to improve the Food Stamp program and restore “budget” cuts enacted in 1996 that affected working families, among others.
- P In sharp contrast, the Administration budget allocates \$555 billion to benefit the richest 1 percent of Americans over the next decade, a group whose real income increased nearly 50 percent since 1989 and who enjoyed a significant tax cut in 1997. This amount is more than health, education, and all other initiatives combined.



# Cuts in Low-Income Programs

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- P No extension of TANF supplemental grants.
  - ▶ Currently, wealthier states receive about \$1,778 in TANF dollars per poor child, while poorer states that received supplemental grants receive \$733 per poor child.
- P Reduction in TANF funding for low-income families because \$400 million spent on state tax credits for charitable giving.
- P \$2.2 billion cut in real funding for HUD programs.
- P Reductions in job training monies.
- P There is no expansion of SCHIP funding to offset a cut of \$1.125 billion in FY 2002 compared to FY2001. This cut was a budget-related measure included when the program was enacted.

# The Working Poor in Iowa

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- P Some 28 percent of children in Iowa will not benefit from the Bush tax plan; 86 percent of excluded families include a worker.
- P Single mothers with two children and child care expenses face average marginal tax rates of 70 percent as their earnings increase from \$14,000 to \$20,000.
- P Some 9 percent of children in Iowa lack health insurance coverage.
- P A single mother leaving welfare loses health insurance coverage when her income reaches 90 percent of the poverty line.
- P In many cases, low-income NCPs face an effective 100 percent tax rate on the child support they pay.
- P Because of employment service funding reductions, Iowa has been forced to enact a special surcharge on employers. The budget should assume unemployment insurance improvements.

# **Building on Welfare Reform: TANF Reauthorization**

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- P Change the law's central focus from caseload reduction to poverty reduction.
- P Support families in the transition from welfare to work by providing appropriate services for adults with significant employment barriers, examining sanction policies, and modifying the time limit on federal cash assistance.
- P Help non-custodial parents build capacity to support their children both financially and emotionally.

# **Building on Welfare Reform: TANF Reauthorization, continued**

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- P Provide services to strengthen two-parent families and help fragile families stay together.
- P Increase funding and make states more accountable for how they use their TANF block grant funds.
  - ▶ The block grant should be indexed for inflation.
  - ▶ Additional funds to reduce the vast disparities in resources available to poorer states.
  - ▶ A more effective measure is necessary to provide states additional funds in case of an economic downturn.

# Budget Implications

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- P Extend TANF Supplemental Grants and put in baseline.
- P Child Welfare.
- P Child Support distribution reform.
- P Fatherhood/Employment services for low-income NCPs.
- P Unemployment Insurance reform.
- P Monies for TANF, child care, the Social Services Block Grant, Food Stamps, Medicaid, and SCHIP.